Playboy Enterprises International, Inc v Zillion Choice Sdn Bhd & Anor

HIGH COURT (KUALA LUMPUR) — SUIT NO (IP) D5–22–996 OF 2007
AZAHAR MOHAMED J
24 SEPTEMBER 2010

Evidence — Exhibits — Admissibility of — Whether exhibits tendered in court for identification had evidential value

Trademarks — Registered trademark — Action for infringement — First defendant granted licence to use plaintiff's trademarks ('PB trademarks') — Whether first defendant breached licence agreements by selling products bearing PB trademarks outside permitted territory — Whether termination of licence agreements by plaintiff valid — Whether defendants infringed plaintiff's trademarks by selling unapproved products bearing PB trademarks — Whether choice of law clause prevented Malaysian courts from having jurisdiction to adjudicate on licence agreements — Whether plaintiff waived contractual right to approve products using its trademarks — Whether plaintiff's representative had apparent authority to approve sale of products bearing PB trademarks

The plaintiff, a company incorporated in the United States of America ('USA'), was at all material times the registered proprietor of the Playboy and Rabbit Head Device trademarks ('the PB trademarks'). The first defendant, a wholesaler of various items of women's apparel was granted a licence to use the plaintiff's PB trademarks in Malaysia and Singapore ('the permitted territory'). There were four licence agreements ('the licence agreements') to govern the relationship between the plaintiff and the first defendant. The plaintiff terminated the first defendant as its licensee in Malaysia after it had obtained alleged evidence that the first defendant had sold or distributed goods bearing the PB trademarks in Japan, which was outside the permitted territory. The plaintiff also alleged that the first defendant had authorised a factory in China to produce 6,620 pairs of unapproved shoes destined for Hong Kong and 300 cartons of sportswear destined for Japan. According to the plaintiff these two pieces of evidence had proven that the first defendant had breached its licence agreements by selling in unlicensed territories and by selling counterfeit goods whose styles or designs were not expressly approved by the plaintiff. The plaintiff's letter dated 14 June 2007 terminated the first defendant's licence in Malaysia and imposed upon the first defendant the obligation to immediately cease and desist from all use of the PB trademarks and to cease sales of products bearing the PB trademarks. However, following the termination of the licence

agreements, the plaintiff had discovered that the first defendant had continued to sell products bearing the PB trademarks at the first defendant's outlet and that the first defendant continued to offer for sale and sell products bearing the PB trademarks. Further, the plaintiff had also discovered evidence that Group Thirty-Six Sdn Bhd ('the second defendant') had infringed the plaintiff's PB trademarks in Malaysia by selling products bearing the PB trademarks without the licence to do so. The first and second defendants were separate entities with common shareholders and directors. The plaintiff commenced an action against the first defendant for breach of the licence agreements and against both defendants for infringing the plaintiff's PB trademarks. The reliefs sought by the plaintiff included, inter alia, injunctive relief restraining the defendants from continuing alleged acts of trademark infringement, payments of royalties, termination fees, damages for breach of contract, interest thereon and costs. In its defence the first defendant contended that it did not breach the licence agreements by selling outside the permitted territory. The first defendant further submitted that it had not infringed the PB trademarks when it continued to sell the products bearing the PB trademarks after the alleged termination, because the plaintiff's representative in Asia, one Simon Wong ('Simon') who had the plaintiff's apparent authority, had approved the sale of the products bearing the PB trademarks by the first and second defendants. It was thus the defendants' contention that the sale of the products bearing the PB trademarks was with the plaintiff's consent or licence, in that the unapproved products were in fact approved by the plaintiff under a changed approval process (ie not in accordance with the licence agreement) through Simon, and that the purported termination of the licence agreements by the plaintiff was thus invalid and unlawful. The defendants thus counterclaimed for, inter alia, a declaration that the plaintiff's purported termination of the licence agreements was invalid; a declaration that the defendants did not infringe any of the PB trademarks; and damages suffered by the defendants arising from the plaintiff's invalid and unlawful termination of the licence agreements. During the course of the trial the plaintiff produced 19 pieces of apparel ('the 19 pieces of apparel') that were allegedly obtained or purchased in Japan, as exhibits, to prove that first defendant had sold or distributed goods bearing the PB trademarks in Japan. The plaintiff also tendered alleged photos of shoes allegedly seized by the Chinese Customs and documents pertaining to the seizures as exhibits to prove that the first defendant had authorised the factory in China to produce the said shoes for export to Hong Kong; as well as documents related to the seizure by the Chinese Customs of 300 cartons of sportswear destined for Japan.

Held, allowing the plaintiff's claims with costs and allowing the first defendant's counterclaim in part:

(1) The plaintiff had failed to prove that the 19 pieces of apparel were in actual fact obtained or purchased in Japan, or that they were being sold in

or to Japan by the first defendant. Even if the 19 pieces of apparel originated from the first defendant there was every possibility that they might have been bought by someone in Malaysia and thereafter resold in Japan without the first defendant's knowledge. Hence the plaintiff had failed to prove that on a balance of probabilities, the first defendant breached the licence agreements by selling unapproved apparel bearing the PB trademarks in Japan. Similarly the photos of shoes allegedly seized by the Chinese Customs and documents pertaining to the seizures did not in any way prove that the first defendant had authorised the factory in China to produce the said shoes for export to Hong Kong. For the same reason, the documents related to the seizure by the Chinese Customs of 300 cartons of sportswear destined for Japan was also not proof that the first defendant had authorised their manufacture and or sale to Japan. As such, it was found that the plaintiff had failed to prove that the first defendant had breached the licence agreements and the unilateral termination of the licence agreements by the plaintiff vide letter dated 14 June 2007 was invalid and unlawful. The first defendant was thus granted a declaration that the termination of the licence agreements was not valid and an inquiry as to damages related to the invalid termination of the licence agreements was ordered (see paras 14–17 & 56).

(2) The approval process contained in para 2 of the licence agreements was the plaintiff's contractual right to approve products using its trademarks in advance of sales and distribution by the first defendant. It was a quality control measure and as such a material term of the trademark licence. The plaintiff had tendered evidence that the approval process which involved three stages was enforced strictly and that the enforcement of quality control provisions in the licence agreements was integral to retain the value of and preserve the goodwill of the PB trademarks. As such, the defendant's evidence that the strict approval requirements were not followed due to commercial expediency and necessity could not be accepted. Based on the totality of the evidence, it was found that the first defendant had no regard whatsoever for complying with the quality control provisions entrenched in para 2 of the licence agreements (see paras 23–24 & 28).

(3) Although the applicable law of contract in relation to the said licence agreements was that of the State of Illinois, USA, it is settled law that such a choice of law clause did not prevent the Malaysian courts from having the jurisdiction to adjudicate on the four licence agreements. After reviewing the two expert opinions on understanding the law of contract of the state of Illinois, the opinion of the plaintiff's expert that implied waiver of conduct and practice would not be supported by Illinois law was preferred. In the present case, there was no agreement in writing signed by the plaintiff and the first defendant to waive or modify any of

the terms of the licence agreements. As such, the plaintiff had not waived its right to enforce the quality control entrenched in para 2 of the licence agreements. In any event, even if under Illinois contract law, a waiver of the approval system prescribed under the licence agreements was permissible, the first defendant had failed to prove that the plaintiff had waived its rights (see paras 29–30, 34–35 & 37).

(4) The first defendant's defence that the plaintiff's representative in Asia, Simon had the plaintiff's apparent authority to approve the sale of the products bearing the PB trademarks by the first and second defendants could not stand. The first defendant had not established that the plaintiff had ever made any representation or created a situation which conferred any authority on Simon to give approval of designs. Further, under Illinois law the acts of the putative agent are irrelevant and it is the actions of the plaintiff as the putative principal that matter. As such, the first defendant had infringed the plaintiff's PB trademarks and was liable for trademark infringement of all the goods it continued to sell after the termination (see paras 50–53).

(5) The issue as to whether the second defendant had infringed the PB trademarks was dependent upon infringement being found against the first defendant, its supplier. Since the sale of the products bearing the PB trademarks by the first defendant were never approved by the plaintiff, it followed that the sale by the second defendant of products bearing the PB trademarks were counterfeits and that the claim for trademark infringement had been made out against the second defendant (see paras 54–55).

[Bahasa Malaysia summary

Plaintif, sebuah syarikat yang ditubuhkan di Amerika Syarikat ('AS'), adalah pada masa setiap masa matan tuan punya berdaftar tanda dagangan Playboy dan Rabbit Head Device ('tanda dagangan PB'). Defendan pertama, pemborong pelbagai barang pakaian wanita telah diberikan lesen untuk menggunakan tanda dagangan PB di Malaysia dan Singapura ('kawasan yang dibenarkan'). Terdapat empat perjanjian lesen ('perjanjian lesen') bagi mengawal hubungan antara plaintif dan defendan pertama. Plaintif telah menamatkan defendan pertama sebagai pemegang lesennya di Malaysia setelah dia mendapat keterangan yang mendakwa defendan pertama telah menjual atau mengedar barangan dengan tanda dagangan PB di Jepun, yang berada di luar kawasan yang dibenarkan. Plaintif juga mendakwa bahawa defendan pertama telah memberikan kebenaran kepada kilang di China untuk menghasilkan 6,620 pasang kasut yang belum diluluskan untuk dihantar ke Hong Kong dan 300 karton pakaian sukan untuk dihantar ke Jepun. Menurut plaintif, kedua-dua keterangan ini membuktikan bahawa defendan pertama telah melanggar perjanjian-perjanjian lesennya dengan menjual di kawasan tanpa lesen dan dengan menjual barangan palsu yang mana gaya atau rekaan

tidak dibenarkan secara nyata oleh plaintif. Surat plaintif bertarikh 14 Jun 2007 telah menamatkan lesen defendan pertama di Malaysia dan mengenakan ke atas defendan pertama kewajipan untuk segera menghentikan dan berhenti daripada menggunakan semua tanda dagangan PB dan untuk menghentikan jualan produk-produk yang mempunyai tanda dagangan PB. Walau bagaimanapun, berikutan penamatan perjanjian-perjanjian lesen tersebut, plaintif mendapati bahawa defendan pertama masih berterusan menjual produk-produk yang mempunyai tanda dagangan PB di kedai defendan pertama dan bahawa defendan pertama masih berterusan menawarkan untuk jualan dan menjual produk-produk yang mempunyai tanda dagangan PB. Selanjutnya, plaintif juga mendapati keterangan bahawa Group Thirty-Six Sdn Bhd ('defendan kedua') telah melanggar tanda dagangan PB di Malaysia dengan menjual produk-produk yang mempunyai tanda dagangan PB tanpa lesen untuk berbuat demikian. Defendan-defendan pertama dan kedua merupakan entiti berasingan dengan pemegang-pemegang saham dan pengarah-pengarah bersama. Plaintif telah memulakan tindakan terhadap defendan pertama kerana pelanggaran perjanjian-perjanjian lesen tersebut dan terhadap kedua-dua defendan kerana melanggar tanda dagangan PB plaintif. Relief-relief yang dipohon oleh plaintif termasuklah, antara lain, relief injunksi menyekat defendan-defendan daripada meneruskan tindakan pelanggaran tanda dagangan yang dikatakan, bayaran royalti, yuran penamatan, ganti rugi kerana melanggar kontrak, faedah dan kos. Dalam pembelaannya defendan pertama menegaskan bahawa ia tidak melanggar perjanjian-perjanjian lesen tersebut dengan menjual di luar kawasan yang dibenarkan. Defendan pertama selanjutnya berhujah bahawa ia tidak melanggar tanda dagangan PB apabila ia berterusan menjual produk-produk yang mempunyai tanda dagangan PB selepas penamatan yang dikatakan itu, kerana wakil plaintif di Asia, Simon Wong ('Simon') yang jelas diberikan kebenaran oleh plaintif, telah membenarkan jualan produk-produk yang mempunyai tanda dagangan PB oleh defendan-defendan pertama dan kedua. Oleh itu defendan-defendan menegaskan bahawa jualan produk-produk yang mempunyai tanda dagangan PB adalah dengan persetujuan plaintif atau lesen, di mana produk-produk tanpa lesen tersebut pada hakikatnya telah dibenarkan oleh plaintif di bawah proses kelulusan yang telah bertukar (iaitu tidak menurut perjanjian lesen) melalui Simon, dan bahawa penamatan perjanjian-perjanjian lesen tersebut oleh plaintif dengan itu adalah tidak sah dan menyalahi undang-undang. Defendan-defendan dengan itu telah menuntut balas untuk, antara lain, deklarasi bahawa penamatan perjanjian-perjanjian lesen plaintif adalah tidak sah; deklarasi bahawa defendan-defendan tidak melanggar mana-mana tanda dagangan PB; dan kerugian yang dialami oleh defendan-defendan yang timbul daripada penamatan perjanjian-perjanjian lesen plaintif yang tidak sah dan menyalahi undang-undang itu. Semasa perbicaraan plaintif telah menghasilkan 19 keping pakaian ('19 keping pakaian tersebut') yang dikatakan telah diperoleh atau dibeli di Jepun, sebagai ekshibit-ekshibit, untuk membuktikan bahawa defendan pertama telah menjual atau mengedarkan

barangan yang mempunyai tanda dagangan PB di Jepun. Plaintif juga telah mengemukakan foto-foto kasut yang dikatakan telah dirampas oleh pihak kastam negara China dan dokumen-dokumen berkaitan rampasan sebagai ekshibit-ekshibit bagi membuktikan bahawa defendan pertama telah memberikan kebenaran kepada kilang di China untuk menghasilkan kasut tersebut bagi tujuan eksport ke Hong Kong; dan juga dokumen-dokumen berkaitan kepada rampasan oleh pihak kastam negara China ke atas 300 karton pakaian sukan untuk dihantar ke Jepun.

Diputuskan, membenarkan tuntutan-tuntutan plaintif dengan kos dan membenarkan tuntutan balas defendan pertama:

(1) Plaintif telah gagal membuktikan bahawa 19 keping pakaian tersebut sebenarnya telah diperoleh atau dibeli di Jepun, atau bahawa ia dijual di dalam ke Jepun oleh defendan pertama. Meskipun 19 keping pakaian tersebut berasal daripada defendan pertama, besar kemungkinan ia telah dibeli oleh seseorang di Malaysia dan kemudian dijual semula di Jepun tanpa pengetahun defendan pertama. Justeru itu plaintif telah gagal membuktikannya atas imbangan kebarangkalian, defendan pertama telah melanggar perjanjian-perjanjian lesen tersebut dengan menjual pakaian yang tidak diluluskan itu yang mempunyai tanda dagangan PB. Begitu juga foto-foto kasut yang dikatakan telah dirampas oleh pihak kastam negara China berkaitan rampasan-rampasan tersebut tidak dalam apa carapun membuktikan bahawa defendan pertama telah memberikan kebenaran kepada kilang di China untuk menghasilkan kasut tersebut untuk tujuan eksport ke Hong Kong. Bagi sebab sama, dokumen-dokumen berkaitan rampasan oleh pihak kastam negara China terhadap 300 karton pakaian sukan untuk dihantar ke Jepun juga bukan bukti bahawa defendan pertama telah memberikan kebenaran kepada pembekal mereka dan atau jualan ke Jepun. Oleh itu plaintif didapati gagal membuktikan bahawa defendan pertama telah melanggar perjanjian-perjanjian lesen tersebut dan penamatan perjanjian-perjanjian sebelah pihak oleh plaintif melalui surat bertarikh 14 Jun 2007 adalah tidak sah dan menyalahi undang-undang. Defendan pertama dengan itu membenarkan deklarasi bahawa penamatan perjanjian-perjanjian lesen tersebut adalah tidak sah dan satu siasatan berhubung ganti rugi berkaitan dengan penamatan perjanjian-perjanjian lesen yang tidak sah telah diperintahkan (lihat perenggan 14–17 & 56).

(2) Proses kelulusan yang terkandung dalam perenggan 2 kepada perjanjian-perjanjian lesen merupakan hak kontraktual plaintif untuk membenarkan produk-produk yang menggunakan tanda dagangannya terlebih dahulu dijual dan diedar oleh defendan pertama. Ia merupakan langkah kawalan kualiti dan dengan itu adalah syarat penting lesen tanda dagangan. Plaintif telah mengemukakan keterangan bahawa proses kelulusan yang melibatkan tiga peringkat telah dikuatkuasakan dengan

ketat dan bahawa penguatkuasaan peruntukan kawalan kualiti dalam perjanjian-perjanjian lesen adalah penting untuk mengekalkan nilai dan nama baik tanda dagangan PB. Oleh itu, keterangan defendan bahawa keperluan kelulusan ketat tidak dipatuhi akibat kepentingan dan keperluan komersial tidak boleh diterima. Berdasarkan keseluruhan keterangan, adalah didapati bahawa defendan pertama tidak hirau langsung untuk mematuhi peruntukan-peruntukan kawalan kualiti yang termaktub dalam perenggan 2 kepada perjanjian-perjanjian lesen tersebut (lihat perenggan 23–24 & 28).

(3) Meskipun undang-undang kontrak yang terpakai berkaitan perjanjian-perjanjian lesen tersebut adalah di negeri Illinois, AS, ia adalah undang-undang tetap bahawa pilihan fasal undang-undang tidak menghalang mahkamah Malaysia daripada mempunyai bidang kuasa untuk membuat keputusan tentang empat perjanjian-perjanjian lesen tersebut. Setelah mengkaji semula pendapat-pendapat kedua-dua pakar tentang pemahaman undang-undang kontrak di Illinois, pendapat pakar plaintif yang menyatakan penepian tersirat perlakuan dan amalan tidak akan disokong oleh undang-undang Illinois telah dipilih. Dalam kes ini, tiada perjanjian bertulis yang telah ditandatangani oleh plaintif dan defendan pertama untuk mengetepikan atau mengubah apa-apa syarat perjanjian-perjanjian lesen tersebut. Oleh demikian, plaintif tidak mengetepikan hak-haknya untuk menguatkuasakan kawalan kualiti yang termaktub dalam perenggan 2 kepada perjanjian-perjanjian lesen tersebut. Dalam apa keadaanpun, meskipun di bawah undang-undang kontrak Illinois, penepian sistem kelulusan yang ditetapkan di bawah perjanjian-perjanjian lesen tersebut dibenarkan, defendan pertama telah gagal untuk membuktikan bahawa plaintif telah mengetepikan hak-haknya (lihat perenggan 23–24 & 28).

(4) Pembelaan defendan pertama bahawa wakil plaintif di Asia, Simon telah diberikan kebenaran yang jelas oleh plaintif untuk meluluskan membenarkan jualan produk-produk yang mempunyai tanda dagangan PB oleh defendan-defendan pertama dan kedua tidak boleh kekal. Defendan pertama tidak dapat membuktikan bahawa plaintif telah membuat apa-apa representasi atau menimbulkan keadaan yang memberikan apa-apa kebenaran kepada Simon untuk memberikan kebenaran ke atas rekaan. Selanjutnya, di bawah undang-undang Illinois tindakan seseorang yang dianggap sebagai ejen tidak relevan dan tindakan-tindakan plaintif yang bertindak sebagai prinsipal yang penting. Oleh demikian, defendan pertama telah melanggar tanda dagangan PB dan bertanggungjawab kerana pelanggaran tanda dagangan untuk semua barangan yang ia terus menjual selepas penamatan itu (lihat perenggan 50–53).

(5) Isu sama ada defendan kedua telah melanggar tanda dagangan PB bergantung kepada pelanggaran yang didapati terhadap defendan pertama, pembekalnya. Oleh sebab jualan produk-produk yang mempunyai tanda dagangan PB oleh defendan pertama tidak pernah dibenarkan oleh plaintif, ini bererti bahawa jualan oleh defendan kedua terhadap produk-produk yang mempunyai tanda dagangan PB adalah palsu dan bahawa tuntutan untuk pelanggaran tanda dagangan telah dibuat terhadap defendan kedua (lihat perenggan 54–55).]

Notes

For a case on admissibility of exhibit, see 7(1) *Mallal's Digest* (4th Ed, 2010 Reissue) para 1495.

For a cases on action for infringement, see 12 *Mallal's Digest* (4th Ed, 2005 Reissue) paras 2125–2126.

Cases referred to

Alliedbank (Malaysia) Bhd v Yau Jiok Hua [1998] 6 MLJ 1; [1998] 2 CLJ 33, HC (refd)

American Express International Banking Corporation v Tan Loon Swan [1992] 1 MLJ 727, SC (refd)

Central Illinois Public Service Co v Atlas Minerals, Inc 965 F Supp 1162 (CD III 1997) (folld)

Chew Hock San & Ors v Connaught Housing Development Sdn Bhd [1985] 1 MLJ 350, FC (refd)

Freeman & Lockyer (a firm) v Buckhurst Park Properties (Mangal) Ltd and another [1964] 2 QB 480, CA (refd)

MMC Power Sdn Bhd & Anor v Abdul Fattah B Mogawan & Anor [2001] 1 MLJ 169, CA (refd)

United Bank of Kuwait Ltd v Hammoud and others; City Trust Ltd and another v Levy [1988] 1 WLR 1051, CA (refd)

Weil, Freiburg & Thomas, PC v Sara Lee Corp 577 NE 2d 1344, 1350 (III App Ct 1991) (refd)

Legislation referred to

Evidence Act 1950 s 45, 45(1)
Illinois Uniform Commercial Code [US]
Trade Marks Act 1976 s 48(1)

Jasdev Singh (Sukumar Karuppiah and Avtaran Singh with him) (Jasdev Chambers) for the plaintiff.

Ng Kim Poh (Ee Tee Gin and Ee Chai Hak with him) (EE & Associates) for the defendants.

Azahar Mohamed J:

[1] Playboy Enterprises International, Inc ('the plaintiff') is a corporation incorporated under the laws of the State of Delaware, United States of America. The plaintiff owns and manages the 'Playboy' and 'Rabbit Head Device' trademarks ('the PB trademarks'). The plaintiff's PB trademarks are registered in Malaysia. The Rabbit Head Device is set out below:

[2] The plaintiff and Zillion Choice Sdn Bhd ('the first defendant') had entered into four licence agreements as follows:

No	Date of licence agreement	Scope of licence agreement	Defined in the statement of claim as
1	1 January 2005	Relating to women's accessories (including but not limited to handbags)	Women's Accessories License dated 1 January 2005
2	1 January 2005	Relating to costume jewelry	Costume Jewelry License dated 1 January 2005
3	1 May 2005	Relating to the (in part exclusive, in part non-exclusive) to design, manufacture, advertise, promote, sell, and distribute women's apparel	Product License dated 1 May 2005
4	1 October 2005	Relating to one freestanding non-mass retail store	Retail Store License dated 1 October 2001

('the licence agreements'). A

[3] The licence agreements governed the relationship between the plaintiff and the first defendant. The territories covered by the licence agreements at the time when they were signed were as follows: B

No	Agreement	Territory	Relevant page at CBD (AB)
1	Women's accessories agreement	Malaysia, Singapore and Philippines*	031
2	Costume jewelry agreement	Malaysia, Singapore, Indonesia and Philippines	061
3	Product licence dated 1 May 2005 (to as 'women's apparel agreement')	Malaysia and Singapore	093
4	Retail store agreement	Kuala Lumpur, Malaysia	128

C D

[4] Pursuant to the said licence agreements, the first defendant was granted a licence to use the plaintiff's PB trademarks in connection with the first defendant's manufacture and sale, by itself or through wholesalers, to department and specialty stores located in countries such as Malaysia and Singapore ('the permitted territory'), of various items of women's apparel such as t-shirts, hats and shoes, and women's accessories and costume jewelry; as well as to operate a stand-alone boutique selling products bearing the plaintiff's PB trademarks. E F

[5] The principal activities of the first defendant are stated as 'wholesaler in all kinds of garments'. While that of Group Thirty-Six Sdn Bhd ('the second defendant') are stated as 'trading in all kinds of garments and general trading'. The first and second defendants are separate entities but are closely related and have several common features such as common shareholders and directors. The second defendant is not a party to the licence agreements. G H

[6] The plaintiff had issued and the first defendant had received a letter of termination ('the letter') dated 14 June 2007 terminating the licence agreements. According to the plaintiff, it had terminated the first defendant as its licensee in Malaysia by the letter after the plaintiff had obtained evidence that the first defendant had sold or distributed, or caused to be sold or distributed goods bearing the PB trademarks in Japan, which is not an authorised territory specified in the licence agreements; and the goods sold in Japan were unapproved products bearing the PB trademarks. However the first I

defendant had through its previous solicitors sent a letter dated 28 June 2007 to the plaintiff disputing the contents of the letter.

[7] It is the plaintiff's case that the first defendant had committed infringement of the plaintiff's rights and breached its agreements with the plaintiff by selling in unlicensed territories and by selling counterfeit products. Further, the letter dated 14 June 2007 imposed, inter alia, the following obligations on the first defendants as stipulated in the licence agreements:

(a) that the first defendant was required to immediately cease and desist from all use of the plaintiff's properties, which included, but not limited to the removal of all Playboy branded signage and fixtures from the Playboy store so that it is no longer a Playboy store; and

(b) the first defendant was required to immediately cease sales of products bearing the PB trademarks.

[8] Following the termination, the plaintiff had discovered that the first defendant continued to operate the Playboy retail store up to the end of July 2007. It is the contention of the plaintiff that such continued sale after termination constituted infringement of the PB trademarks. In addition, the first defendant was also found to be selling shoes in Malaysia, which were never approved by the plaintiff. According to the plaintiff, the sale of goods bearing the PB trademarks as well as the unapproved shoes which were supplied by the first defendant, were additional instances of breach of the licence agreements by the first defendant. The plaintiff did not know this fact when the letter was issued and therefore the unapproved shoes did not form the basis of the termination of the licence agreements.

[9] In the premises, the plaintiff claims that the first defendant had breached the licence agreements; and that the defendants are liable for infringing the plaintiff's PB trademarks. The reliefs sought by the plaintiff include, inter alia, injunctive relief restraining the defendants from continuing their alleged acts of trademark infringement; payment of royalties, termination fees, damages for breach of contract, etc; an order for delivery up or destruction of all alleged infringing goods of the defendants; an order for full discovery of all relevant documents pertaining to the alleged infringing acts; an inquiry as to damages or, at the plaintiff's option, an account of profits, and payment of all sums found due upon the taking of such inquiry or account including interests thereon; and costs.

[10] The defendants' defences can be summarised as follows. The first defendant did not breach the said licence agreements as it did not sell or distribute or cause to be sold or distribute products bearing the plaintiff's PB trademarks outside the permitted territory specified in the said licence

agreements. The first defendant did not infringe the plaintiff's PB trademarks as the alleged unapproved products produced and distributed by the first defendant in Malaysia were in fact sold with the consent or licence given by the plaintiff's representative in Asia at the material time, one Simon Wong who had the apparent authority to approve the said product on behalf of the plaintiff which led to a variation and a waiver of the relevant provisions of the said licence agreements. Furthermore, the second defendant did not infringe the plaintiff's PB trademarks as the alleged unapproved products bearing the plaintiff's PB trademarks sold by the second defendant were bought from the first defendant and which were in fact sold with the plaintiff's consent or licence given by Simon Wong by virtue of the said apparent authority. It is the contention of the defendants that the purported termination of the said licence agreements was invalid and unlawful; and had interfered with and ended the contractual relationships between the first defendant and the second defendant in respect of the sale of licensed products bearing the plaintiff's PB trademarks. The reliefs sought by the defendants by way of counterclaim are, inter alia, a declaration that the plaintiff's purported termination of the said licence agreements is invalid; a declaration that the defendants did not infringe any of the plaintiff's registered trademarks; and damages suffered by the defendants arising from the plaintiff's invalid and unlawful termination of the said licence agreements be assessed and paid by the plaintiff to the defendants.

[11] Having stated the rival contentions of the parties, in my view there are three core questions to be decided in this action:

(a) Whether the first defendant had breached the said licence agreements by:

(i) having sold and/or distributed products bearing the plaintiff's PB trademarks outside the permitted territory; and

(ii) having produced and distributed products outside the permitted territory whose styles or designs were not expressly approved by the plaintiff in accordance with the said licence agreements.

(b) Whether first defendant had infringed the plaintiff's PB trademarks in Malaysia by:

(i) having sold allegedly unapproved products bearing the plaintiff's registered trademarks at the first defendant's outlet at One Utama Shopping Centre during the currency of the said licence agreements; and

(ii) having continued to trade, offer for sale and sell products bearing the plaintiff's PB trademarks, including the alleged unapproved products, after the purported termination of the said licence agreements.

(c) Whether the second defendant had infringed the plaintiff's PB trademarks in Malaysia by having sold the alleged unapproved products at its respective outlets at One Utama, The Curve, Mid Valley Megamall, Sungei Wang Plaza, Queensbay Mall and Gurney Plaza.

[12] I have read and reviewed in detail the testimonies of all the witnesses, the documentary exhibits and the submissions of all the parties. After much thought and deliberation, this is my judgment in respect of the three core issues, which I shall deal with each of them in turn.

THE FIRST CORE ISSUE: WHETHER THE FIRST DEFENDANT HAD BREACHED THE LICENCE AGREEMENTS

[13] In support of its allegation that the first defendant breached the said licence agreements, the plaintiff is relying on the first defendant allegedly sold unapproved apparel bearing the plaintiff's PB trademarks in Japan; the first defendant allegedly authorised a factory in China to produce 6,620 pairs of unapproved shoes destined for Hong Kong; and the first defendant allegedly authorised a company to sell and distribute 300 cartons of sportswear destined for Japan. But this matter must be considered with regard to the admissibility of exhibits tendered in court during the course of the trial.

[14] The plaintiff is relying on 19 pieces of apparel allegedly purchased in Japan and which allegedly originated from the first defendant, namely ID37 (1)–ID37 (9) and ID38 (1)–ID38 (10). However, this poses difficulties. Now, it is trite law that an ID is purely for identification only and should be excluded as part of trial record. They have no evidential value. Further, all oral testimony given in relation to ID37 (1)–ID37 (9) and ID38 (1)–ID38 (10) should also be disregarded (see *Alliedbank (Malaysia) Bhd v Yau Jiok Hua* [1998] 6 MLJ 1; [1998] 2 CLJ 33). Furthermore, no evidence is led to prove that ID37 (1)–ID37 (9) and ID38 (1)–ID38 (10) were in fact purchased or obtained in Japan. The plaintiff's allegation that ID37 (1)–ID37 (9) and ID38 (1)–ID38 (10) were bought or obtained in Japan is based purely on hearsay evidence that is inadmissible, namely the alleged information given by its licensee in Japan. The alleged licensee in Japan was neither identified nor called as a witness. The plaintiff has failed to prove that these 19 pieces of apparel were in actual fact obtained or purchased in Japan. There is another difficulty in the contention advanced by the plaintiff. There is no evidence that the first defendant sold ID37 (1)–ID37 (9) and ID38 (1)–ID38 (10) in or to Japan. The plaintiff did not adduce any evidence to prove that ID37 (1)–ID37 (9) and ID38 (1)–ID38 (10) were being sold in or to Japan by the first defendant. Even if ID37 (1)–ID37 (9) and ID38 (1)–ID38 (10) originated from the first defendant, there is every possibility that they might have been bought by someone in Malaysia and thereafter resold them in Japan without the knowledge of the first

defendant. Hence, it is my findings that the plaintiff has failed to prove that, on a balance of probabilities, the first defendant breached the said licence agreements by selling unapproved apparel bearing the plaintiff's PB trademarks in Japan.

[15] The plaintiff also alleged that the first defendant had authorised a factory in China to produce 6,620 pairs of unapproved shoes destined for Hong Kong which were allegedly seized by the Chinese Customs in July 2006. The plaintiff is relying on ID4 ie alleged photos of shoes allegedly seized by the Chinese Customs; ID5 ie alleged documents relating to the alleged seizure; and ID6 ie alleged notice of action taken by the Chinese Customs. As stated earlier, an ID is purely for identification only and should be excluded as part of trial record and that all oral testimony given in relation to ID4, ID5 and ID6 should also be disregarded by this court. In any event, ID4, ID5 and ID6, do not in any way prove that the first defendant had authorised the factory in China to produce the said shoes for export to Hong Kong. In my view there is no basis to say that the first defendant had authorised the factory in China to produce 6,620 pairs of the alleged unapproved shoes destined for Hong Kong.

[16] Next, the plaintiff alleged that the first defendant authorised a company to sell and distribute 300 cartons of unapproved sportswear destined for Japan which were seized by the Chinese Customs in December 2006. The plaintiff is relying on ID7, ie alleged documents relating to the alleged seizure; ID8, ie alleged notice of action taken by the Chinese Customs; and exh P35, ie alleged letter dated 5 January 2007 from the plaintiff to the Chinese Customs. Even if this court were to admit ID7 and ID8, that they do not in any way prove that the first defendant had authorised a company to sell and distribute the alleged unapproved sportswear destined for Japan. There is no basis to say that that the first defendant had authorised Tropical Mission (M) Sdn Bhd to manufacture and/or sell the alleged 300 cartons of sportswear destined for Japan.

[17] These are the reasons why it is my findings that the plaintiff has failed to prove that the first defendant had breached the said licence agreements. Hence, there is merit in the arguments of learned counsel for the defendants to the effect that the unilateral termination of the licence agreements by the plaintiff vide letter dated 14 June 2007 was invalid and unlawful. And I hereby declare so.

[18] I now turn to consider the second core issue.

THE SECOND CORE ISSUE: WHETHER THE FIRST DEFENDANT HAD INFRINGED THE PLAINTIFF'S PB TRADEMARKS

[19] In support of its claim that the first defendant had infringed the

plaintiff's trademark in Malaysia the plaintiff is relying on the following. The first defendant had sold unapproved shoes bearing the plaintiff's PB trademarks at the first defendant's outlet at One Utama Shopping Centre during the duration of the said licence agreements; and that the first defendant continued to trade, offer for sale and sell unapproved shoes bearing the plaintiff's PB trademarks, after the termination of the said licence agreement.

[20] Now, there can be no doubt that if the first defendant's use of the plaintiff's trademarks on any products is contrary to any of the said four licence agreements, such use would amount to trademark infringement.

[21] It is the contention of the defendants that all the alleged unapproved products were in fact approved by the plaintiff under a changed approval process (ie not in accordance with the said licence agreements) and/or through Simon Wong. It is said that the plaintiff knew all along prior to the purported termination that the defendants were selling the alleged unapproved shoes. It was argued by learned counsel for the defendants that the plaintiff was well aware of this and in fact by its conduct had waived strict compliance with the approval requirements stated in the said licence agreements. Learned counsel then argued that in some cases, the first defendant was given approval by Simon Wong. He argued that although the plaintiff is now contending that Simon Wong did not have the authority to approve any design proposal from its licensees, his conduct clearly showed otherwise; and that the first defendant was under the clear impression that he had authority from the plaintiff to approve design proposal of the plaintiff's licensees. Learned counsel for the defendants argued that the approval system prescribed under para 2 of the said licence agreements was waived and varied by the conduct of the parties. It is the contention of the defendants that a waiver of the approval system prescribed under para 2 of said licence agreements is permissible whether by way of writing or impliedly by conduct of the parties.

[22] Here, one point should be noted. The first defendant has admitted in its amended defence and counterclaim that the plaintiff did not approve a single shoe designed by the first defendant during the duration of the agreement. Therefore, there can be no dispute that none of the shoes design submitted by the first defendant was ever approved by the plaintiff.

[23] Now, in addressing the issues raised by the first defendant, it is important to keep in mind the approval process provided in para 2 of the licence agreement. Michele Helen McCoy ('PW1') in her evidence has explained in detail the approval process and its importance. According to her, the quality control approval process is entrenched in para 2 of the licence agreement. In so far as it is relevant to the issue under discussion, her evidence can be summarised as follows. The plaintiff licences its trademarks, other

images, and artwork it owns for use in connection with the worldwide manufacture, sale, and distribution of products. It works with licensees to develop, market and distribute high quality merchandise branded with the PB marks that includes men's and women's fashion apparel, men's underwear, women's lingerie, accessories, etc. Given that the plaintiff has such an extensive licensing business trade, it is crucial that it has a clear system set in place for managing its licensees. This is achieved by having in place rules for licensees in written contracts with its licensees such as the licence agreements in the present case. These agreements clearly set out what the licensees are authorised to do, how they can do it and what kind of approval is required for various actions. It is crucial that the plaintiff ensures that it protects the goodwill associated with its valuable trademarks and controls the quality of the licensed products that bear the PB marks. In line with its strict quality controls, the plaintiff has a strict and required product design approval process in place to ensure it has control over the quality of the products so that the brand is not damaged. This is consistent with a trademark owner's obligation to control quality. That is to say the approval process is set so that the plaintiff can ensure that the designs submitted by licensees adhere to the plaintiff's philosophy of general design and it can keep abreast of the activities of its licensees. There are three stages of approval on the plaintiff's online approval website. There is the initial concept approval stage, the pre-production approval stage and the production approval stage. All stages must be complied with to complete the full approval process. The stringent approval procedure also ensures that there are no designs, which may encroach into the rights of any third parties not related to the plaintiff. All approvals come ultimately from the plaintiff even if intermediaries such as consultants are involved along the way. Such intermediaries are in place to help guide the licensees, but intermediaries do not act in lieu of the plaintiff or as and do not make final decisions. That is in summary the evidence of PW1 on this issue.

[24] I should like to add that it cannot be disputed that quality control is key to a licensing arrangement which a trademark proprietor is obliged to enforce. In my view, the plaintiff's contractual right to approve products using its trademarks in advance of sales and distribution by the first defendant is a quality control measure and quality control is a material term of any trademark licence. The thing is a trademark's basic function is to signify the quality of the product bearing the trademark. That function requires quality control. Failing to engage in quality control destroys the trademark and is considered fraud to the public. Thus, enforcement of quality control provisions in the plaintiff's agreements is integral to retain the value of, and preserve the goodwill of the plaintiff's PB trademark. Which is why to my mind, the plaintiff had included quality control provisions in para 2 of the licence agreements.

[25] The key principles governing a licensing arrangement is succinctly described as follows in *Trade Mark Licensing* by Neil J Wilkof and Daniel Burkitt ('*Trade Mark Licensing* by Neil J Wilkof'), para 10-08 at p 225:

> The basic right of the licensor with respect to the trade mark is proprietary, namely, to permit the use of the trade mark by the licensee in accordance with the terms and conditions specified in the license. Any use of the trade mark by the licensee, other than as authorized by the licensor, will be an infringement of the licensor's proprietary rights in the trade mark.
>
> Generally speaking, the licensor's proprietary rights in the trade mark license can reasonably be said to be comprised of the following provisions:
>
> (a) The form, covered by the registration, in which the trade marks, may be used:
>
> (b) The scope of the goods or services for which the license is granted:
>
> (c) The territory in which the trade marks may be affixed;
>
> (d) The quality of the goods manufactured or the services provided;
>
> (e) The duration of the license.

[26] The obligation on quality control is also summarised as follows in *Trade Mark Licensing* by Neil J Wilkof, para 6.02 at p 101:

> Quality Control — The Classical Approach
>
> Trade mark licensing has been distinguished from other types of intellectual property licensing by the requirement for quality control over the licensee's use of the mark. It was the recognition that quality control is compatible with the source theory of trade marks that led to the legal recognition of trade mark licensing.
>
> As long as the licensed use of the trade mark is subject to quality control, the trade mark is deemed to function as the identifier of source, and the mark serves to distinguish its goods from those of others. This is accomplished by imputing the licensee's use of the trade mark to the licensor. When this occurs, there continues to be a connection in the course of trade between the proprietor of the mark and the goods.

[27] Section 48(1) of the Trade Marks Act 1976 provides for quality control provision:

> (1) Subject to the provisions of this section, where the registered proprietor of a trade mark grants, by lawful contract, a right to any person to use the trade mark for all or any of the goods or services in respect of which the trade mark is registered, that person may be entered on the Register as a registered user of the said trade mark whether with or without any conditions or restrictions, provided that it shall be a condition of any such registration that the registered proprietor shall retain and exercise control over the use of the trade mark and over the quality of the goods or services provided by the registered user in connection with that trade mark.

[28] Coming back to the present case, PW1 had carefully and meticulously taken this court through the three approval stages during her testimony at trial. She maintained that it was enforced strictly when it was suggested by the defendants' counsel to her that the plaintiff was not serious in compliance. She had also disputed the suggestion that over the course of the dealings between plaintiff and the first defendant, the approval process was actually abandoned and it was varied or waived by way of conduct where once the first defendant submitted a design to the plaintiff for approval, the first defendant would then proceed with the production and sale of products, and thereafter submit the reports of the sales to the plaintiff. There is internal consistency in the evidence of PW1. Her evidence is consistent and fits in the rest of the evidence adduced by the plaintiff. To my mind, she is a trustworthy and credible witness. There is no valid reason for this court to reject her testimony. The plaintiff has never compromised its stringent approval process at all and rightly so. To do so would put itself at risk of losing its extremely valuable trademarks. That is why I cannot accept the testimony of Dato Ng Keng Fong ('DW2'), the director of the first defendant to the effect that the strict approval requirements were not followed by the plaintiff due to commercial expediency and necessity. I am more inclined to accept PW1's testimony rather than DW2. Based on the totality of the evidence before this court, it is my findings that the first defendant has no regard whatsoever for complying with the quality control provisions entrenched in para 2 of the licence agreements.

[29] It is at this point, I shall deal with the issue of waiver and variation raised by the first defendant. It is common ground that the applicable law of contract in relation to the said licence agreements is that of the State of Illinois, USA. This is pursuant to para 13 of these agreements. It is settled law that such a choice of law clause does not prevent Malaysian courts from having the jurisdiction and ability to adjudicate on the said four licence agreements. In *American Express International Banking Corporation v Tan Loon Swan* [1992] 1 MLJ 727 our then Supreme Court held if it is necessary for a court in this country to form an opinion upon a point of foreign law, s 45 of the Evidence Act 1950 ('the EA') can be applied. Section 45(1) of the EA provides that when the court has to form an opinion upon a point of foreign law, the opinions upon that point of persons person specially skilled in that foreign law are relevant facts; and such persons are known as experts.

[30] In this regard, the defendants called Philip L O'Neill ('DW1') to assist the court on understanding the law of contract of the State of Illinois. His professional qualification and experience included, among others, as follows. He is a business law counselor and trial lawyer since 1977 and has been continuously engaged in the private practice of law there ever since. In 2000, he became a member of the Washington, DC law firm of Jacobson Holman PLLC, which specialises in trademarks, copyright, patent and unfair

competition matters. On the other hand, the plaintiff called Scott T Schutte ('PW3'). He is a partner with the law firm of Howre, in the Chicago Illinois office. He has litigated numerous cases that involved Illinois contract law. Having reviewed the professional qualification and experience of PW3 and DW1, I am satisfied that both of them can be considered as experts within the meaning of s 45 of the EA in the law of contract of the State of Illinois as they have practiced that foreign law in the course of their profession for a substantial and significant amount of time and they have held office pertaining to or dealing with such law.

[31] Their evidence bring into focus para 18 of the licence agreement which provides:

> 18. ENTIRE AGREEMENT. This Agreement (with the Schedule and Exhibits A through E) represents the entire understanding of the parties hereto. None of the terms of this Agreement can be waived or modified except by an express agreement in writing signed by the parties hereto. There are no representations, promises, warranties, covenants or undertakings other than those contained in this Agreement. No custom or practice of the parties hereto at variance with the terms hereof shall constitute a waiver of Licensor's right to demand exact compliance with any of the terms herein at anytime. The failure of either party hereto to enforce, or the delay by either party hereto in enforcing, any or all of its rights under this Agreement shall not be deemed as constituting a waiver or a modification thereof, and either party hereto may, within the time provided by applicable law, commence appropriate proceedings to enforce any or all of such rights. Except as expressly provided in this Agreement, no individual or entity other than Licensee and Licensor shall be deemed to have acquired any rights by reason of anything contained in this Agreement.

[32] Now, DW1 is of the opinion that in spite of the provisions of para 18, under Illinois contract law, a waiver of the approval system prescribed under para 2 of the said licence agreements is permissible whether by way of writing or impliedly by conduct of the parties. Further, an implied waiver may arise from either of the two situations, namely an unexpressed intention to waive can be clearly inferred from the circumstances; or the conduct of one party has misled the other party into a reasonable belief that a waiver has occurred. DW1 has explained in his testimony as to why under Illinois contract law, a waiver of the approval system prescribed under para 2 is permissible.

[33] This is in sharp contrast to the opinion of PW3. According to PW3, an implied waiver of the said four licence agreements is not permissible due to para 18 and that any modification of the licence agreements by practice is inconsistent with Illinois law. Likewise, PW1 has also explained in some detail in his testimony as to why he came to that conclusion.

[34] After much deliberation and reviewing the two opinions, I am more inclined to agree with the opinion of PW1 rather than DW1 on this issue. My reasons now follow. Based on the case of *Central Illinois Public Service Co v Atlas Minerals, Inc* 965 F Supp 1162 (CD III 1997), PW3 is of the opinion that Illinois law specifically states that where the actions of the parties to the contract are inconsistent with a clear and unambiguous term of the contract, the terms of the contract prevail. I think this is a good opinion and is undoubtedly the correct view. Indeed, it is also an established principle in our jurisdiction that courts are to determine and enforce the intent of the parties according to the plain meaning of the express terms of the contract. In the present case, to my mind, the parties have agreed to the clear and unambiguous terms as encapsulated in para 18 that: (a) all waivers and modifications require an express agreement in writing; that (b) no custom or practice at variance with the contractual terms constitutes a waiver of licensor's right to demand exact compliance with the written terms; and (c) any failure or delay in exercising such right shall not, itself, constitute a waiver or modification. That is why, I agree with the opinion of PW1 to the effect that any modification of the licence agreements by practice is inconsistent with Illinois law. I also agree with the opinion of PW1 that the Illinois Uniform Commercial Code ('UCC') provides that a signed agreement which excludes modification or rescission except by express agreement in writing cannot be otherwise modified or rescinded. In my view, the opinion of PW3 that the UCC applies to the licence agreement fits with the cases decided by the US courts, which he has brought to the attention of this court.

[35] I have no difficulty to accept the principle that Illinois law would respect and enforce the clear language of para 18 of the agreements. In the present case, there was no agreement in writing signed by the plaintiff and the first defendant to waive or modify any of the terms of the licence agreements. For this reason, I conclude that any contention by the defendants that the plaintiff waived its right to enforce the quality control entrenched in para 2 of the licence agreements on the ground of implied waiver by conduct and practice would not be supported by Illinois law and would be rejected.

[36] Therefore, on this ground alone, the contention of the defendants that they did not infringe the plaintiff's PB trademarks must fail.

[37] Going beyond that, in any event, even if under Illinois contract law, a waiver of the approval system prescribed under the licence agreements is permissible as suggested by DW1, the first defendant has failed to prove that the plaintiff had waived its rights. In my view, the first defendant has submitted no credible evidence whatsoever that the plaintiff intentionally relinquished its rights to insist on strict compliance with the quality control provisions as explained by PW1. On the contrary, the plaintiff has submitted evidence that

every time the first defendant logged on to the plaintiff's online approval website, it was reminded of the requirement that strict compliance with the online approval process was required.

[38] In my view, the two sales reports relied on by the defendants do not amount to waiver. The reports do not match exactly that which was actually received by the plaintiff as explained by PW1 in her testimony. Certain important information was missing from the version relied on by the first defendant. The point was explained during the re-examination of PW1.

[39] In this context, I cannot accept the contention that the plaintiff are deemed to have given approval for shoes design by the sales reports, which at the most is confined to two reports, namely January 2007 and February 2007, involving not more then ten shoes. In my view, the plaintiff cannot be imputed with knowledge that the first defendant was manufacturing and selling unapproved shoes merely from these two reports.

[40] It is also the contention of the defendants that one Aaron Duncan, the VP of design department of the plaintiff was aware of the changed process and saw the unapproved shoes being sold by the plaintiff. He came to Malaysia on 17 June 2005, 5 September 2005 and 26 July 2006. It has been established that Aaron Duncan only worked through the online system for approvals. I agree with the submissions of learned counsel for the plaintiff that it is too far fetched for the first defendant to claim that by the mere fact of him visiting the defendants' outlets in Malaysia, the plaintiff had thereby waived and varied the approval system prescribed under the licence agreements. In any event there is no evidence to show that Aaron saw the design of the shoes that were not approved when he visited the outlets.

[41] It is also the contention of the defendants that Simon Wong had the apparent authority to approve the design of the plaintiff's licensees. In addressing this issue, it is necessary to consider Simon Wong's role and what he was empowered to do. PW1 in her evidence has explained Simon Wong's role and mandate as follows:

> He was an independent consultant whose primary task was as I said earlier, to provide marketing related consultant services to PEL. In fact the Consultancy agreements consistently provide for this at the very beginning, though the 2003 and 2004 agreements merely state 'to provide marketing related services' and not, to provide marketing related *consultant* services. The language was merely made clearer as he was providing marketing related *consultant* services.
>
> His activities were limited to coordination, preparation, marketing, and liaison activities. Further, he was specifically not authorized to conclude contracts or accept orders on behalf of PEI.

Essentially what Simon did was to act as a coordinator between PEL and its licensees in Asia. Though he may have from time to time acted to facilitate issues relating to design approvals and approvals involving the use of PEL's trade marks he did not get involved in the actual approval process and did not make decisions about approval as that is clearly not within his scope of his engagement as a consultant. While Simon might offer opinions or recommendations at times, these were precisely that, mere opinions and recommendations from a consultant. PEI was tasked with making final decisions and managing and providing approvals.

38. Did Simon have any authority to approve designs of merchandise submitted by licensees within the jurisdictions where he acted as a consultant to PEI?

No. Only the Design Team can only do this.

[42] The reason for Simon Wong's services being terminated has also been explained by PW1 which had to do with the plaintiff as an operator of media and licensing businesses transitioning into a brand management company. As a result it was necessary to outsource certain activities to third party companies.

[43] In my view, the issue whether Simon Wong had authority to approve or there was a change in the approval procedure as alleged by the defendants can be put to rest by his email of 19 January 2007 which were worded as follows:

I had sent you enclosed pictures before Xmas time. From our approval record, these samples are never submitted to NY for approval. Please confirm these samples are not zillion products. If we do not received your reply within a week I assume you are confirmed these samples are not zillion products.

[44] This email was sent barely five months before the termination of the first defendant as a licensee. Now if the approval procedure was modified as alleged by the first defendant, why Simon would want to refer to the fact that the goods were not approved. Simon Wong has also in clear and unequivocal language stated under oath that he had no mandate to give approval. This is set out in Simon Wong's affidavit dated 4 August 2008 which was the plaintiff's reply affidavit in resisting the defendants' application to discharge an ex parte injunction granted by this court on 1 August 2010 ('Simon's inter partes reply affidavit'). Simon's inter partes reply affidavit has been introduced by the defendants as one of their documents in Part B of the common bundle of documents. This statement by Simon Wong made under oath makes the position very clear, that all issues relating to design approvals and approvals involving the use of the plaintiff's PB trademark including approvals for listing of advertisements are made directly with the plaintiff's New York and/or Chicago offices and that he merely facilitates such communication but do not get involved in the decision making or approval process.

[45] Now, under the law of Illinois, a party (the agent) may bind his principal by his words or actions if he has either actual or apparent authority. According to Restatement (Third) of Agency §2.03 (2006): 'Apparent authority is the power held by an agent or other actor to affect a principal's legal relations with a third party when a third party reasonably believes the actor has authority to act on behalf of the principal and that belief is traceable to the principal's manifestations.' In *Weil, Freiburg & Thomas, PC v Sara Lee Corp* 577 NE 2d 1344, 1350 (III App Ct 1991), 'Apparent authority arises when a principal creates, by its words or conduct, the reasonable impression in a third party that the agent has the authority to perform certain acts on its behalf'.

[46] Based on authorities cited above, the thing that one should know and clearly understand is that the 'belief is traceable to the principal's manifestations' or 'when a principal creates, by it words or conduct, the reasonable impression in a third party that the agent has the authority to perform certain acts on its behalf'.

[47] It seems to me that the law on apparent authority applicable in Illinois is no different from that applicable in Malaysia. The leading authority which has been applied by the Malaysian courts is the *Freeman & Lockyer (a firm) v Buckhurst Park Properties (Mangal) Ltd and another* [1964] 2 QB 480 ('*Freeman* case'). The difference between an actual and an apparent or ostensible authority and the principles applicable thereto are clearly explained by Diplock LJ as follows:

> An 'apparent' or 'ostensible' authority, on the other hand, is a legal relationship between the principal and the contractor created by a representation, made by the principal to the contractor, intended to be and in fact acted upon by the contractor, that the agent has authority to enter on behalf of the principal into a contract of a kind within the scope of the 'apparent' authority, so as to render the principal liable to perform any obligations imposed upon him by such contract.

[48] Our courts have applied the principles enunciated in the *Freeman* case as in *Chew Hock San & Ors v Connaught Housing Development Sdn Bhd* [1985] 1 MLJ 350 at p 353 and *MMC Power Sdn Bhd & Anor v Abdul Fattah B Mogawan & Anor* [2001] 1 MLJ 169 at pp 173–174.

[49] With the above principles in mind, to prevail on their apparent agency argument, the first defendant must establish that the plaintiff created a situation where the first defendant believed Simon Wong had authority to approve product designs; and that the first defendant's belief was reasonable. For 'apparent authority' to exist, the agent must not purport to make the agreement as principal himself. Therefore the source of the 'apparent authority' has to be the principal, not the agent. If there is no representation by the

principal, there can be no apparent authority conferred on the agent, even if the agent represents the contrary. It is trite law that an agent cannot ordinarily confer ostensible authority on himself. He cannot pull himself up by his own shoe laces (see *United Bank of Kuwait Ltd v Hammoud and others; City Trust Ltd and another v Levy* [1988] 1 WLR 1051).

[50] The most glaring weakness of the defendants' contention is that they proceed on the basis that Simon Wong, the so-called agent had in fact held out to have apparent authority. The point to make here is this. The first defendant has not established that the plaintiff had ever made any representation or created a situation, which conferred any authority on Simon to give approval of designs.

[51] In conclusion to the issue of 'apparent authority', the first defendant has not discharged its burden of showing that the plaintiff (as opposed to Simon Wong) created a situation where the first defendant reasonably believed that Simon Wong had the authority to act on behalf of the plaintiff in giving product approval. On the contrary all the evidence relied on by the first defendant relates to the acts of Simon Wong. Under Illinois law, the acts of the putative agent are irrelevant to the apparent authority analysis; it is the actions of the putative principal that matter.

[52] On top of that, the first defendant has not established its belief that Simon Wong had apparent authority to approve product designs was reasonable. Indeed, the fact that the first defendant continued throughout the relationship with the plaintiff to submit products for approval directly using the plaintiff's online approval procedures demonstrates that its belief that Simon Wong had authority to approve designs was not reasonable. In any event, even assuming that Simon Wong had apparent authority to approve product design there is no evidence that in fact he gave any such approvals to the first defendant.

[53] There is no doubt that the first defendant had used marks which are identical to the PB trademarks. The shoes in question were never approved by the plaintiff. Therefore it must inevitably follow that the first defendant had infringed the plaintiff's PB trademarks. The first defendant is also liable for trademark infringement of all the goods it continued to sell after the termination.

THE THIRD CORE ISSUE: WHETHER THE SECOND DEFENDANT INFRINGED THE PLAINTIFF'S PB TRADEMARKS

[54] The plaintiff is alleging that the second defendant had infringed the plaintiff's PB trademarks in Malaysia by having sold the alleged infringed

products at its respective outlets at One Utama, The Curve, Mid Valley Megamall, Sungei Wang Plaza, Queensbay Mall and Gurney Plaza. The second defendant's case is that the alleged infringed products were in fact approved or licensed by the plaintiff, albeit through a changed approval process and/or Simon Wong who had apparent authority.

[55] The second defendant obtained the supply of the shoes in issue from the first defendant. Therefore, in so far as the second defendant is concerned, the issue of trademark infringement relating to shoes is dependant upon infringement being found against the first defendant, its supplier. Since I have already ruled that the shoes were never approved by the plaintiff, it inevitably follows that the shoes sold by the second defendant bearing the PB trademarks are counterfeits. Therefore a case of infringement is also made out against the second defendant.

[56] Therefore, to sum it up, based on all the previously mentioned reasons, I allow the plaintiff's claims for trademark infringement of the plaintiff's PB trademark by the defendants. I would make an order in terms of the plaintiff's statement of claim, para 28(g), (h), (i), (j), (k) and (l). On the other hand, I allow with costs the first defendant's counterclaim against the plaintiff for a declaration that the termination of the said licence agreements are not valid and an inquiry as to damages related to the invalid termination of the said licence agreements.

Plaintiff's claims allowed with costs; first defendant's counterclaim allowed in part.

Reported by Kohila Nesan